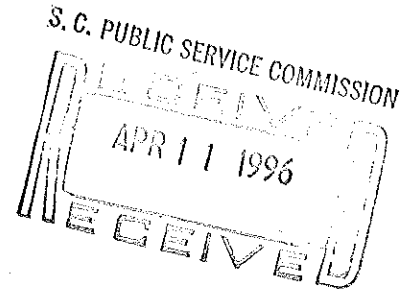


1 TESTIMONY OF R. H. HALL, JR.

2 FOR

3 DUKE POWER COMPANY

4 SCPSC DOCKET NO. 96-005-E

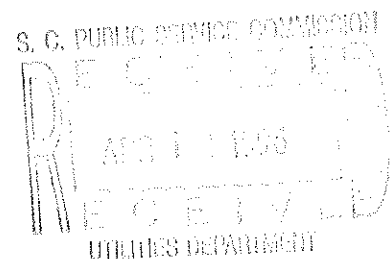


5 Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE
6 POWER COMPANY.

7 A. My name is R. H. Hall, Jr., and my business address is
8 400 South Tryon Street, Charlotte, North Carolina. I
9 am General Manager, Fuels Purchasing for Duke Power
10 Company.

11 Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND
12 PROFESSIONAL AFFILIATIONS.

13 A. I attended the West Virginia Institute of Technology
14 and graduated with a BS in Engineering in 1964. During
15 college, I worked for a coal company and also for a
16 mining equipment company. I joined Mill-Power Supply
17 Company as a fuel trainee in the summer of 1964,
18 progressed through various fuel purchasing positions
19 and was appointed to my present position in March,
20 1978. I am a member of the North Carolina Coal
21 Institute and the American Society of Mining,
22 Metallurgical and Petroleum Engineers, Inc.



1 Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS
2 COMMISSION?

3 A. Yes, I have testified in connection with the
4 applications by the Company to adjust its electric
5 rates and charges based solely on changes in the cost
6 of fuel. My last testimony was presented in Docket No.
7 95-006-E.

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
9 PROCEEDING?

10 A. The purpose of my testimony is to furnish information
11 relating to our fuel purchasing and practices for the
12 period October, 1995 - March, 1996. My testimony
13 will also include a summary of our fuel purchases and
14 fuel inventories.

15 Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL
16 PROCUREMENT PRACTICES?

17 A. Yes. The Company continues to follow the same
18 procurement practices discussed in previous testimony,
19 and a summary of those practices is as follows:

- 1 1. Estimating Fuel Requirements. Fuel requirements
2 are estimated annually based on input data from
3 several departments, including Forecasting, System
4 Planning, Nuclear Production, Fossil Production,
5 Operating and Fuel Purchasing.
- 6 2. Inventory Requirements. Monthly and annual fuel
7 inventory requirements for each station and the
8 system are determined after considering the
9 Company's purchasing and production requirements.
10 Final review and approval are provided by Duke's
11 Executive Committee.
- 12 3. Covering of Fuel Requirements. On a monthly
13 and annual basis, reviews are made of existing
14 contracts and projected consumption to determine
15 the need for additional spot or contract supplies.
- 16 4. Qualified Suppliers. A list of qualified
17 suppliers is maintained along with detailed
18 historical records of their performance and
19 capabilities as to quantity, quality, loading
20 capacities, etc. Invitations to bid are
21 distributed to all qualified suppliers to cover
22 additional or future contract needs.

- 1 5. Bid Evaluation. Contracts are awarded after a
2 complete evaluation cycle including an on-site
3 visit to the source to determine the capabilities
4 of the suppliers.
- 5 6. Spot Purchases. To supplement our fuel supply,
6 entry into the spot market is made on a month-by-
7 month basis.
- 8 7. Expediting. All orders are expedited (monitored)
9 closely as to performance against schedule
10 quantity, quality, and proper bills of lading,
11 etc. This expediting data is used to prepare a
12 monthly performance report on each supplier.
- 13 8. Quality Control. The Company samples and analyzes
14 all coal received at each station. These analyses
15 are monitored closely against contract
16 specifications and serve as the basis for final
17 price determinations. All coal is also weighed at
18 each station to verify freight charges assessed by
19 the railroads.

1 9. Audits. The Company has audit rights in all its
2 contracts. A formal audit of each contract is
3 conducted by Duke's Internal Audit Department on a
4 specified frequency or at any time a price
5 adjustment is requested under the terms of the
6 contract.

7 Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE EXHIBITS
8 PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR
9 SUPERVISION?

10 A. Yes. The exhibits were either prepared by me or at my
11 direction and under my supervision.

12 Q. WHAT IS SHOWN ON HALL EXHIBIT 1?

13 A. Hall Exhibit 1 is a summary of certain fuel statistics
14 for the period October, 1995 - March, 1996. The
15 Exhibit shows the quantities consumed, quantities
16 purchased, and the weighted average unit price for
17 each type of fuel.

18 The average price of our coal decreased \$3.52 per ton
19 when compared to the previous six-month period. Both
20 the mine price and transportation portions declined.
21 The greatest reduction (\$2.90 per ton) was in the
22 average mine price. This resulted from the
23 Westmoreland buyout, the replacement of expiring

contracts with lower market based contracts, and the renegotiation of several existing contracts that allowed for market reopeners. Spot purchases accounted for 28% of our total purchases and the price for this coal remained relatively flat at approximately \$24 per ton f.o.b. mine. The following tabulation shows the monthly quantities of contract and spot coal purchased:

<u>MONTH</u>	<u>CONTRACT</u>	<u>SPOT</u>
OCTOBER	725,368	422,730
NOVEMBER	741,593	323,914
DECEMBER	631,678	390,120
JANUARY	560,201	203,048
FEBRUARY	799,818	155,427
MARCH	825,819	204,959
TOTALS	4,284,477	1,700,198

Demand for coal remained strong throughout the period as consumers attempted to replenish low inventories caused by heavy summer burns, however, stockpiles were reduced even more during the January and February winter storms. Coal production and transportation were sharply curtailed during these months. Most utilities are presently restoring inventories in preparation of the summer season.

When compared to the previous six month period, prices increased \$0.02 per gallon of oil and \$0.44 per MCF of natural gas. This was attributable to the winter heating demand.

1 Uranium prices have increased due to import
2 restrictions, reduced production, and increased mining
3 costs.

4 Q. WHAT IS HALL EXHIBIT 2?

5 A. Hall Exhibit 2 shows the inventories for each type of
6 fuel at the beginning and end of this reporting period.
7 Coal inventories were reduced only 44,000 tons over the
8 period, however, system inventory actually dropped to
9 less than 1.1 million tons during early February's snow
10 and ice storms which prevented production and rail
11 deliveries. We will continue to buy additional
12 quantities of spot coal during the next three months to
13 prepare for the summer burn. We want this
14 replenishment to be a gradual and controlled process so
15 that prices are not pushed to higher levels by a short
16 term demand.

17 Oil inventories were allowed to decline more than
18 3 million gallons. This decision was based on the
19 forecast that oil would be readily available at lower
20 prices in the spring than those prices being paid in
21 January and February. Lower oil inventories are
22 more acceptable during spring and summer months when
23 natural gas is again available on an interruptible
24 basis.

1 Q. WHAT DO YOU FORESEE AS TO FUEL PRICES AND AVAILABILITY
2 IN THE NEXT SIX MONTHS?

3 A. Coal supply should match or exceed demand through the
4 month of June. Demand should increase during the
5 summer season, but this is dependent primarily on the
6 weather. Prices should remain flat. Our average price
7 per ton could decline as the contract prices are
8 reduced while buying more spot tonnage.
9 Oil and natural gas should be readily available at
10 prices lower than those during this test period.

11 Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

12 A. Yes, it does.

HALL EXHIBIT 1
FUEL PURCHASES AND CONSUMPTION
OCTOBER, 1995 - MARCH, 1996

COAL

Tons Burned	6,071,231
Tons Purchased	5,984,675
Avg. Mine Price/Ton	\$28.36
Avg. Frt. Price/Ton	\$9.91
Avg. Delivered Price/Ton	\$38.27
Avg. Delivered Price/MMBtu	\$1.5429

OIL

Gallons Consumed	12,311,520
Gallons Purchased	8,706,466
Avg. Price/Gallon Purchased	\$0.5680

NATURAL GAS

Mcf. Purchased	369,290
Avg. Price Mcf.	\$2.7102

URANIUM

Pounds Purchased	1,443,925
Avg. Price/Pound	\$13.46

HALL EXHIBIT 2
FUEL INVENTORIES

	<u>9/30/95</u>	<u>3/31/96</u>
COAL (TONS)	1,558,751	1,514,748
#2 OIL (GALLONS)	13,045,311	9,404,869
URANIUM (POUNDS)	1,534,994	1,098,227